Monterey Peninsula College

Final Budget

Fiscal Year 2011-2012

Governing Board Approved
August 23, 2011

Monterey Peninsula College

Final Budget

2011-2012 Fiscal Year

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Introduction

The Final Budget is the District's spending plan for the fiscal year 2011-12. The Final Budget is based on "budget assumptions" developed from a number of sources including the state's adopted budget, approved trailer bills, and input from the Chancellor's Office and the Community College League of California.

The District maintains accounts in seven (7) major funds. The following is a summary indicating the projected beginning balances, 2011-12 budgets, and projected ending balances for each fund:

Funds	Beginning Fund Balance 7/1/2011	Budgets 2011-2012 Revenue	Budgets 2011-2012 Expense	Ending Fund Balance 6/30/2012
General				
Unrestricted	$3,763,831	$37,533,388	$37,530,148	$3,767,071
Restricted	$0	$5,576,376	$5,576,376	$0
Special Revenue				
Child Development - Unrestricted	$0	$560,576	$560,576	$0
Child Development - Restricted	$0	$231,190	$231,190	$0
Student Center	$214,409	$275,200	$264,229	$225,380
Parking	$92,179	$469,000	$464,458	$96,721
Debt Service				
Student Center Revenue Bond	$20,905	$18,975	$18,975	$20,905
Lease Payments	$103,491	$275,324	$275,324	$103,491
Capital Projects	$812,067	$3,216,400	$3,914,852	$113,615
Building	$54,046,985	$200,000	$39,371,502	$14,875,483
Self Insurance	$9,327,145	$6,886,665	$7,477,624	$8,736,186
Fiduciary				
Financial Aid	$12,881	$5,500,000	$5,500,000	$12,881
Associated Students	$16,122	$134,000	$134,000	$16,122
Scholarship and Loans	$272,948	$2,850,000	$2,850,000	$272,948
Trust Funds	$293,917	$589,000	$589,000	$293,917
Orr Scholarship	$61,262	$50,000	$40,000	$71,262
Total	**$69,038,142**	**$64,366,094**	**$104,798,254**	**$28,605,982**

Notes: Beginning Balance is prior to audit of 2010-2011 fiscal year end.
Ending Balance is calculated based on Beginning Balance and Budgets

All funds are budgeted to have a positive ending fund balances. The unrestricted general fund maintains the Board established fund balance reserve of 10% of general fund expenditures. Proposed general fund revenues and expenses are balanced.

The state's budget situation continues to be challenging in light of the slow economic recovery. In January 2011, the Governor released his budget proposal for 2011-12 which identified a $26.6B deficit. The deficit is the result of the structural imbalance between revenues and expenses; declining revenues due to the recession; the expiration of the temporary taxes imposed in 2009; and the use of one-time solutions and accounting gimmicks of past budgets. In March 2011, the legislature passed $13.4B in budgets solutions including some affecting community colleges. The budget process began with a call for compromise and hope for an expedited agreement to allow the public to vote on tax extensions and other major reforms. It ended with a majority-vote budget featuring deep program cuts, deferred payments, assumptions of higher revenues, and the threat of mid-year trigger cuts.

Using the authority provided by the voters through Proposition 25 (November, 2010), the Legislature passed the 2011-12 Budget Act (SB 87) with a simple majority rather than the 2/3rds vote that had been required for the past several decades. The plan solves what was identified in January as a $26.6 billion gap through major program reductions, borrowing and transfers, and an assumption of major revenue gains beyond what had been estimated in January. The state's final budget assumes General Fund expenditures of $85.9 billion, a decrease of $5.5 billion from the 2010-11 fiscal year.

Recognizing concerns that the revenues may not match assumptions, the state budget includes a control section giving the Director of Finance authority to reduce appropriations as specified below upon a finding by December 15th that revenues are not keeping pace with budget assumptions.

- Tier 0 – There will be no midyear cuts if at least $3 billion of the $4 billion of the higher revenues materialize.
- Tier 1 – If only $2 billion to $3 billion of the revenues materialize, up to $601 million in midyear cuts could be enacted. A $30 million General Fund reduction to the California Community Colleges offset by an increase in fees to $46 per unit.
- Tier 2 – If less than $2 billion of the revenues materialize, over $1.8 billion in cuts could be meted out to K-14. The California Community Colleges could receive a reduction to apportionments of up to $72 million beyond the Tier 1 cuts.

In light of the continued uncertainty surrounding the state economic condition and the likelihood of mid-year trigger cuts, conservative budget assumptions are being used to develop MPC's Final Budget for 2011-12:

- No funded COLA (statutory COLA estimated at 2.24%)
- No growth funding
- $2.94M reduction to state apportionment (assumes Tier 2 trigger cut)
    - Workload reduction (reduced FTE cap)
- Fee increase from $26 to $36 per unit and a mid-year increase to $46 (Tier 1 & 2)
- No change to state categorical funding levels
    - Categorical flexibility extended for another two years
- New inter-year deferral.

Based on the preceding budget assumptions, the total apportionment for 2011-12 is estimated at $34,672,630 for FY 2011-12. This represents a $2,943,808 reduction from 2010-11 apportionment or approximately a 7.8% cut. The apportionment reduction will take the form of a workload reduction. That is, the funded FTES for MPC will be reduced for FY 2011-12.

Budget Response

In the past two years, MPC responses to budget deficits have been largely opportunistic. That is, taking advantage of opportunities to reduce expenditures as they arose, such as reducing staffing by attrition, reducing program costs due to reduction in state support, reducing instructional service agreements in response to the state's changing priorities, and restructuring MPC's defined health benefits plan. For budget year 2011-12, the magnitude of the proposed reduction to apportionment and its direct impact on FTES no longer allows MPC to rely primarily on an opportunistic approach.

Public education is a people business and 84% of MPC's general fund budget is devoted to salaries and benefits. The proposed apportionment cut ($2.9M) will fall directly on the unrestricted side of the general fund which bears the burden of salaries and benefits. Even in the best case scenario, MPC's budget deficit cannot be addressed without compensation expenditures being part of the overall solution.

In developing responses to the 2011-12 budget deficit, expenditure reductions or savings generally fall into three categories. The first includes institutional savings generated from reduction of service contracts, supplies, and other operating expenses. The second category is expenditures directly related to the reduced FTES cap such as instructional service agreements and program offerings. The third category is those cost saving measures produced through collective bargaining or reduction in force.

Each department was requested to reduce their operating budget in the areas of contracts and supplies by 15%. This produced savings of approximately $105,000. The travel and conference budgets were consolidated under the supervision of the VPs and were reduced by 15% as well.

The proposed reduction in MPC's funded FTES cap necessitates a reduction in the number of class offerings for 2011-12. FTES generated above the reduced cap would be unfunded by the state. The reduction was not approached as a flat percentage cut across the board. The deans in Academic Affairs and the division chairs carefully examined the fall schedule programmatically. Reductions were made in areas with multiple sections, elective courses, and courses as far as possible from the core required courses of programs. The deans, in coordination with division chairs, developed a specific cut of 5% in the fall schedule. Furthermore, the division chairs were asked to develop plans to cut 10% or 15% if the state budget situation deteriorated. In planning for the spring 2012 schedule, division chairs have been asked to develop a schedule comparable to the fall with a 5% cut compared to last spring. This cut, as was the fall, will be done programmatically and not across the board. Instructional service agreements also serve to generate FTES in a variety of areas such as drama, public safety and park ranger academy. MPC is proposing to reduce instructional service agreements by approximately $439,000 in 2011-12 as part of the overall budget solution.

In the area of collective bargaining, the District has reached a tentative agreement with MPCTA on compensation-related cost saving measures. This agreement has been ratified by their membership. MPCTA's portion of the deficit is $1.0M under the worst case scenario. MPCTA's deficit has been mitigated through a one-year wage concession and savings generated by faculty retirements. The District has also reached tentative agreements with MPCEA, but the agreement has yet to be ratified as of this writing. MPCEA's deficit is $550,964. Management and confidential employees have agreed to take the same wage concession as the faculty group. For budgeting purposes, it is assumed that each employee group will generate their respective share of savings through concessions or other means. The total deficit to be made up by the faculty, classified, management, and confidential groups is $1.8M.

In the fall of 2011-12, MPC will be opening the permanent Education Center complex in Marina. This $9.1M complex is being funded by the District's bond program and is the culmination of years of planning and development. It is estimated that the annual additional cost to operate this center will be $34,000 primarily for utilities. Operations at the former Fort. Ord are currently classified by the state as a grandfathered center. This is based on the extensive history of providing instruction and service prior to the Fort Ord base closure. This center status provides a base funding of approximately $277,000 plus apportionment for those operations. When the enrollment reaches 500 FTES and certain other conditions are met, the college will apply to the California Community Colleges Chancellor's Office, Board of Governors, and California Postsecondary Education Commission for full education center status. That status will increase the base funding approximately $250K for each increase of 250 FTES, up to a maximum base funding of $1M plus enrollment apportionment. The opening of the Education Center at Marina and the movement to full center status are important aspects of the District's fiscal stability plan.

While every effort has been made to reduce expenditures in response to the proposed budget cut, there are a number of unavoidable one-time district expenses that will be incurred in 2011-12. These one-time expenditures total $325,000 and include Education Center at Marina startup, trustee elections, demographic review of trustee areas, and library materials.

In recognition of these extraordinary budget times, the District will be utilizing some one-time funds and reserves to close the budget deficit. These include excess reserves above 10% in 2010-11, and mandated cost reimbursement. A number of year end transfers from the unrestricted general fund to capital outlay and self-insurance will be implemented prior to closing the books for 2010-11. Some of these one-time funds will be transferred back to the unrestricted general fund as other revenue to help close the budget deficit for 2011-12.

Enrollment Trends / FTES

In 2009-10, MPC was funded on enrollment of 7,888 FTES. The total included 6,732.95 credit FTES and 1,155.05 non-credit FTES. In the 2010-11 annual apportionment attendance report filed with the Chancellor's Office on July 20, 2011, the District is reporting total FTES of 7,681.07. This is based on 7,111.29 credit FTES and 569.74 non-credit FTES. While total FTES reported for 2010-11 is less than 2009-10, credit FTES has increased 8.5% from the prior year. The net effect of increased credit FTES offsets the overall reduction in total FTES year over year because credit FTES are funded at a 40% higher rate.

The proposed workload reduction in 2011-12 has a significant fiscal impact on apportionment. The Chancellor's Office has estimated that under a Tier 0 scenario, funded FTES will be reduced by 480 FTES. Under a Tier 2 scenario, the workload reduction is likely to increase to 580 FTES or more. To maximize funding under a workload reduction, MPC should make every effort to continue emphasizing credit FTES course offerings.

Institutional Goals

Progress on institutional goals that require additional resources continues to be made despite the challenging budget climate. Goal 3 in the Institutional Goals and Objectives for 2011-14 calls for "Managing the rate of growth in programs and services in Seaside and Marina, subject to funding and growth conditions." The district is committed to opening the permanent Education Center at Marina in 2011-12 with a long-term view of increased funding when full center status is achieved. Growth at the Education Center will need to be monitored and regulated if workload reductions continue. Institutional Goal 4 identifies the need to "Maintain and strengthen instructional and institutional technology." The District will be investing in "thin client" technology and infrastructure in 2011-12. This will be rolled out on a limited basis in 2011-12, and should provide a more cost effective platform for the College as older PC units become obsolete and are replaced by thin clients.

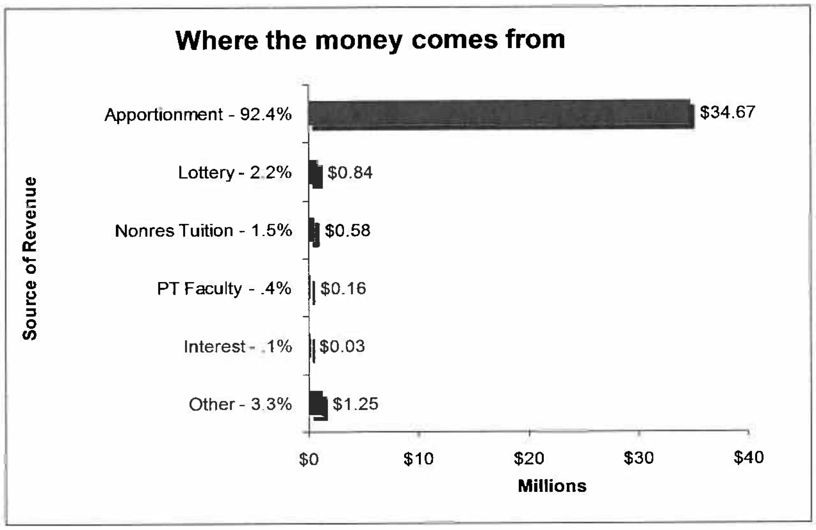
General Fund

The General Fund includes the general operating budgets for the District. Some monies are restricted as to their use and the fund is therefore separated by unrestricted and restricted.

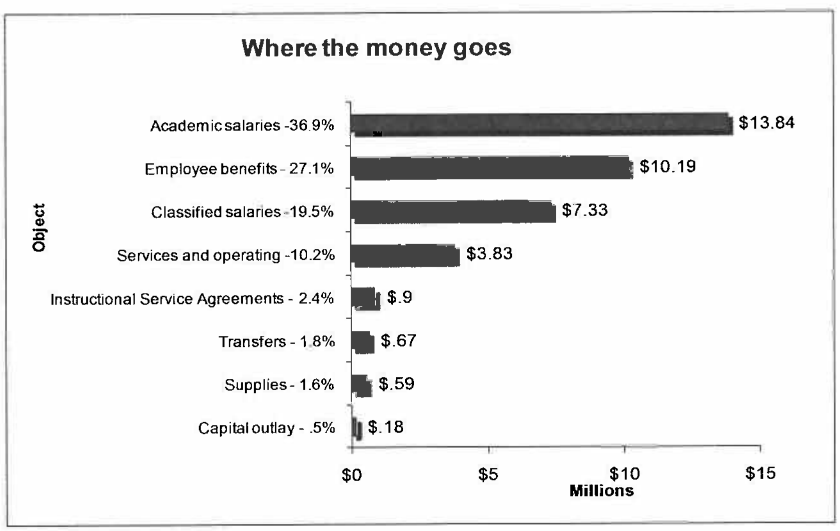
Unrestricted General Fund

The District's primary financial activities for day-to-day operating revenues and expenses occur in the Unrestricted General Fund. Revenue is budgeted by the source of the funding and expenses are budgeted by their function. Amounts budgeted for revenue and expense in the Unrestricted General Fund show revenue to exceed expenses by $3,240 and an ending balance of $3,767,071, which maintains the Board's 10% target reserve. The Final Budget indicates total General Fund revenue is budgeted to decrease 4.9% from the 2010-2011 Revised Budget. Unrestricted general fund revenues include federal, state and local revenue sources.

Apportionment is the largest source of revenue and represents 92% of total unrestricted income. Apportionment is calculated by the State Chancellor's office based on in-state enrollments referred to as full time equivalent students (FTES) at the District. This Final Budget assumes an apportionment reduction of $2.9M based on a "worst case" Tier 2 scenario. No new apportionment funds are budgeted for growth or a COLA. The four largest sources of revenue (apportionment, lottery, nonresident fees, part-time faculty compensation) totaling 97% of the Unrestricted General Fund are dependent on enrollments, both in-state and nonresident.



Total general fund expenses are projected to decrease $1,889,457 (4.79%) from the 2010-2011 Approved Budget. The largest portion of expenses is for people, with salaries and corresponding fringe benefits for employees accounting for 84% of total expenses. Adding Instructional Service Agreements to employee expenses accounts for 86% of total expenses. The cost of employee benefits continues to be the second largest expense in the budget, currently representing over 27% of total expenses.



A labor contract with MPCTA has been ratified by their membership. A tentative agreement with MPCEA has been signed but not ratified as of this writing. Savings generated from these agreements are assumed in this final budget.

Restricted General Fund

Funds used for the operation and support of educational programs that are specifically restricted by law, regulation, donor, or other outside agency are recorded in the Restricted General Fund. The majority of these funds must be expended within the fiscal year or returned to the funding agency. Budgets for state programs are based on the state's current approved budget. Funds budgeted for all programs total a little over $5.5 million.

The following chart shows the 18 largest categorical programs and their respective funding level for the 2011-12 Final Budget:

Disabled Students Programs and Services (DSP&S)	$592,643
Extended Opportunities Programs and Services (EOP&S)	$604,226
Marine Advanced Technology Education (MATE)	$429,174
MATE ROV Competition/ITEST	$373,141
Upward Bound	$369,995
Health Services	$363,300
Math Science Upward Bound (MSUB)	$358,042
Matriculation - CR/NCR	$346,346
New Scholars	$304,351
Student Financial Aid Administration (SFAA/BFAP)	$211,620
Enrollment Growth- Nursing	$131,156
CalWorks/TANF	$158,262
Perkins I-C Student Support Structure	$142,130
Federal Work Study	$136,838
Lottery	$165,462
Workability	$111,828
Marine Tech Mentor/Intern	$111,282
Basic Skills 2009-10	$92,784

Special Revenue Fund:

Child Development Center (CDC), Student Center, and Parking are accounted for in the Special Revenue Fund. Revenues generated by these programs are intended to pay for the cost of services provided.

Revenues and expenses for child development services are recorded in the CDC fund. The CDC Fund includes monies that are restricted as to their use and the fund is therefore separated by unrestricted and restricted. The CDC Fund has a total budget of $791,766 (unrestricted and restricted). CDC has been operating with two contracts under the California Dept. of Education. Unfortunately the reimbursement funds available from the state contracts have not covered operating costs, which are almost entirely payroll and benefits. For Fiscal Year 2011-12, the CDC was asked to reduce the amount of Unrestricted General Fund support by $200,000. The CDC proposed a plan to operate a full-cost classroom program without a state subsidy, and free of state controls on fees charged. As part of the plan, the district has cancelled the state General Child Care contract, which provided a very low rate of funding per resources used. The CDC will continue to operate a program for 3 and 4 year- olds under a State Preschool contract.